



Tiangong International Co., Ltd.

天工国际有限公司

(Stock Code: 826.HK)

## Investor Presentation

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August 2018



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# Disclaimer

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天工國際有限公司

TIANGONG INTERNATIONAL COMPANY LIMITED

## SECTION 1

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### Company Overview



# Snapshot



## Leading global new alloy materials & tools provider

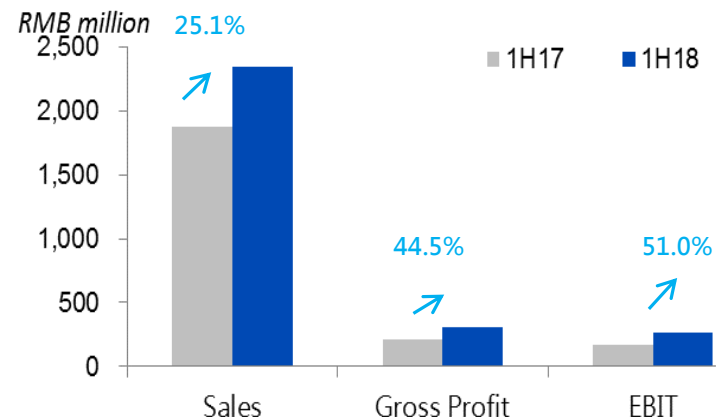
- Global leadership positions in Die Steel, Titanium alloy and Cutting tools industry with over 200K tons of production capacity:
  - # 1 globally in HSS market
  - # 1 in China's HSS Cutting Tools industry
  - # 4 globally in Die Steel sector
  - # 3 in China's Titanium Alloy market
- Strong product line in large, global markets with diverse end-market exposures
- Operation in over 10 countries with employee strength of around 3,000 people

## Selected financial information

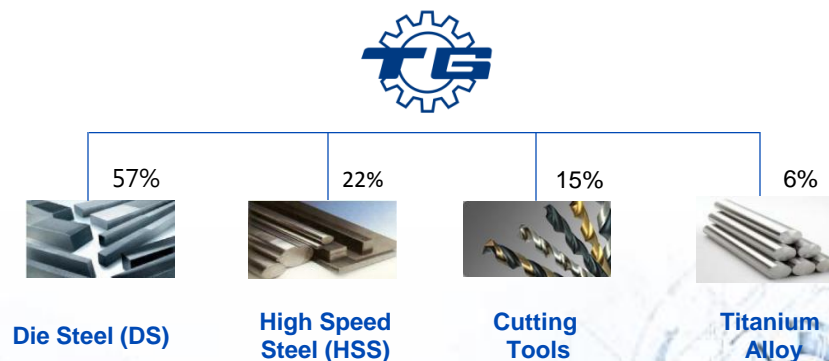
<i>RMB million</i>	1H17	1H18
Sales	1,877.0	2,347.7
Gross Profit	214.1	309.3
Adj. EBIT*	171.8	259.4

\*Note: To arrive at adjusted EBIT, the Group's earnings are further adjusted for items not specifically attributed to individual segments

## 1H 2018 operating highlights



## 1H 2018 sales breakdown by segment



Note : Revenue excluding trading of goods



## 2018 Interim Product Segment Highlights

Portfolio of leading product with attractive margins



Die Steel (DS)



High Speed Steel (HSS)



Cutting Tools



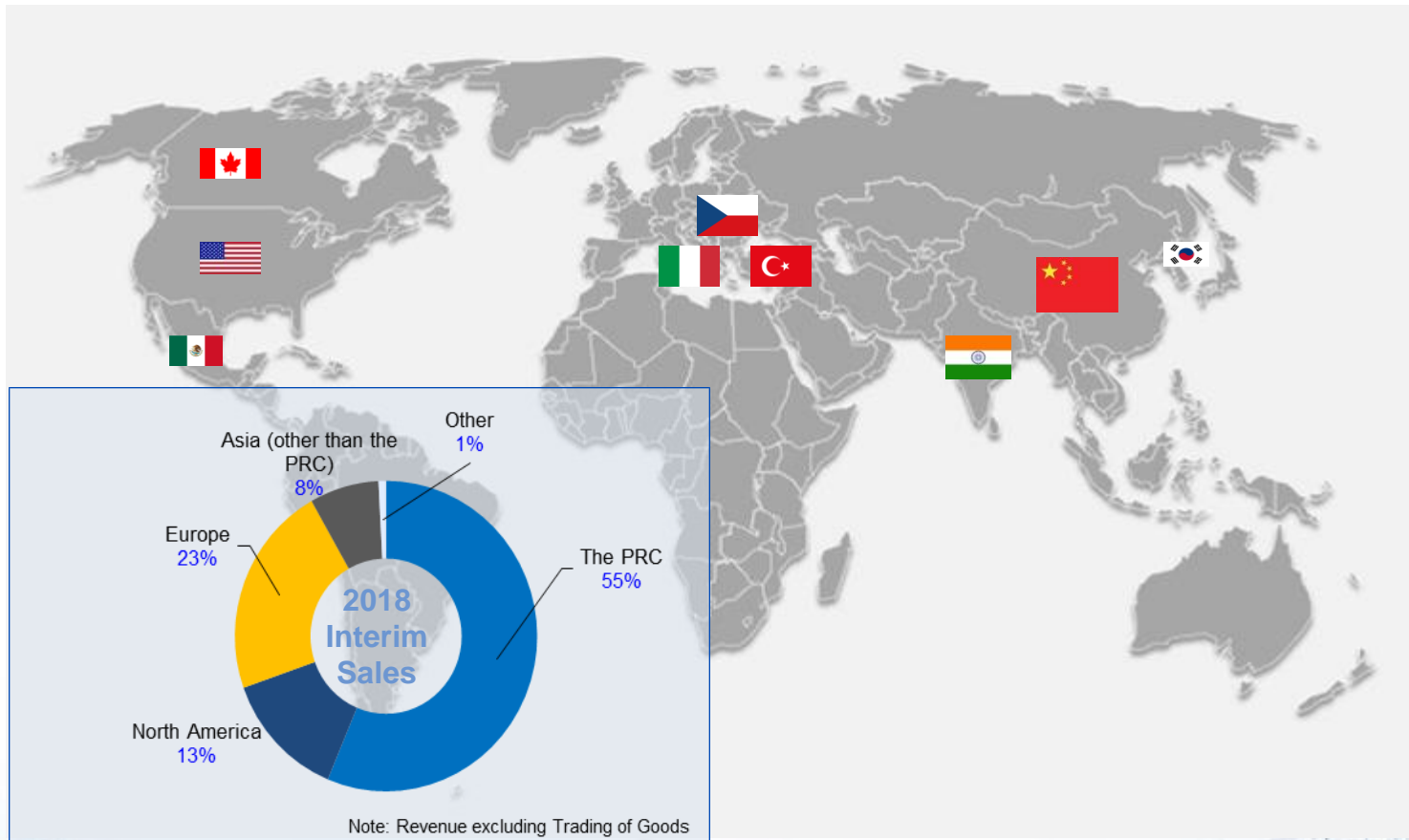
Titanium Alloy

Revenue (RMB million)	989	375	271	107
GP Margin	17.8%	20.4%	15.1%	15%
Adjusted EBIT (RMB million)	141	69	33	16
Sales Volume	79.3K tons	13.0K tons	126.1M pcs	1.6K tons
ASP	RMB12.5K/ton	RMB28.8K/ton	RMB2.15/pc	RMB64.8K/ton

# Global Footprint






















Global sales network strategically located in high growth regions



# End-market Exposures



Diverse end-market exposures mitigates volatility

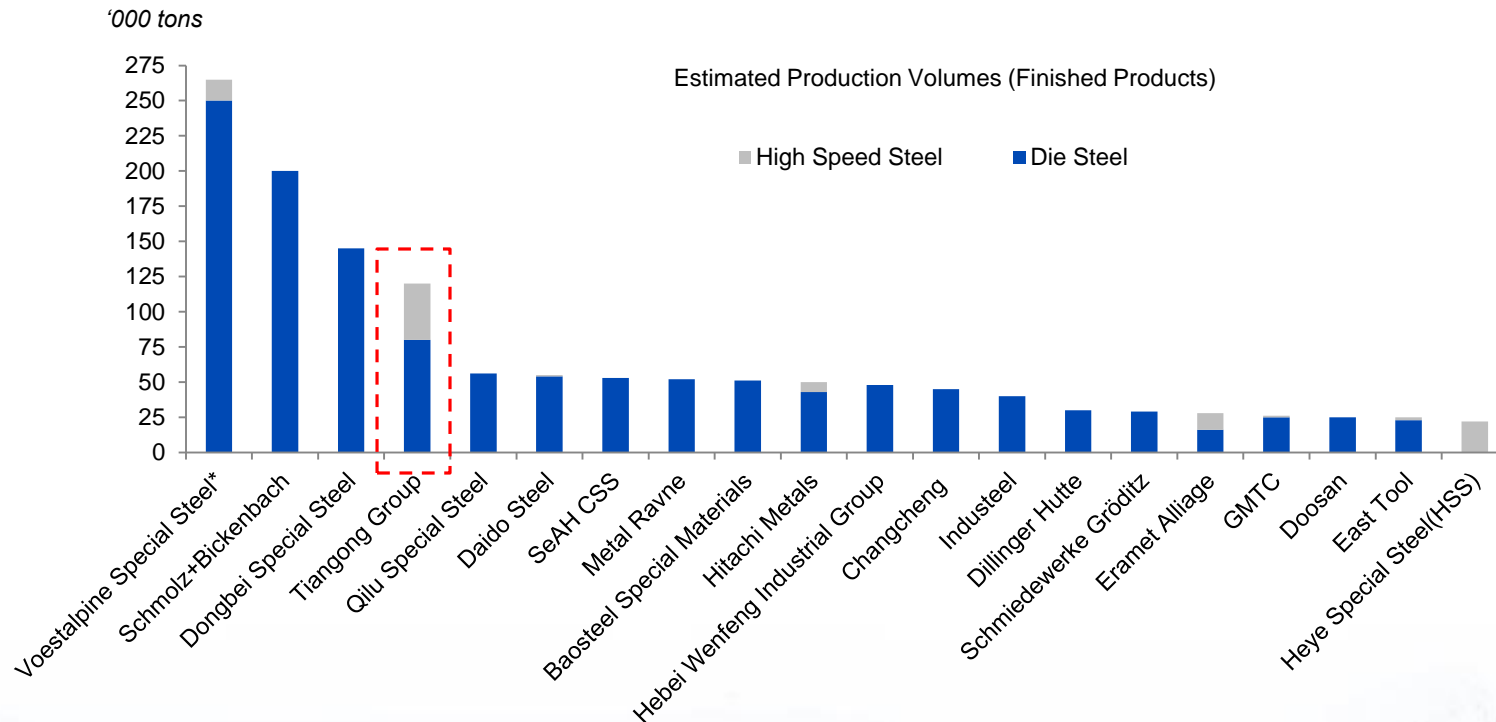
	Industry	End Users
<b>Die Steel</b>	Automobile, Aerospace, Machinery Equipment	 Mercedes-Benz  
<b>High Speed Steel</b>	Automobile, Aerospace	  
<b>Cutting Tools</b>	Automobile, Aerospace, Machinery Equipment, Construction, Consumer Electronics	       
<b>Titanium Alloy</b>	Medical, Aerospace, Military	    





# Top 20 Global Alloy Tool Steel Producers - 2016

Ranked No. 1 in global High Speed Steel industry  
and among the top 4 global Die Steel producer



SOURCE: Steel & Metals Market Research 2016



天工國際有限公司

TIANGONG INTERNATIONAL COMPANY LIMITED

## SECTION 2

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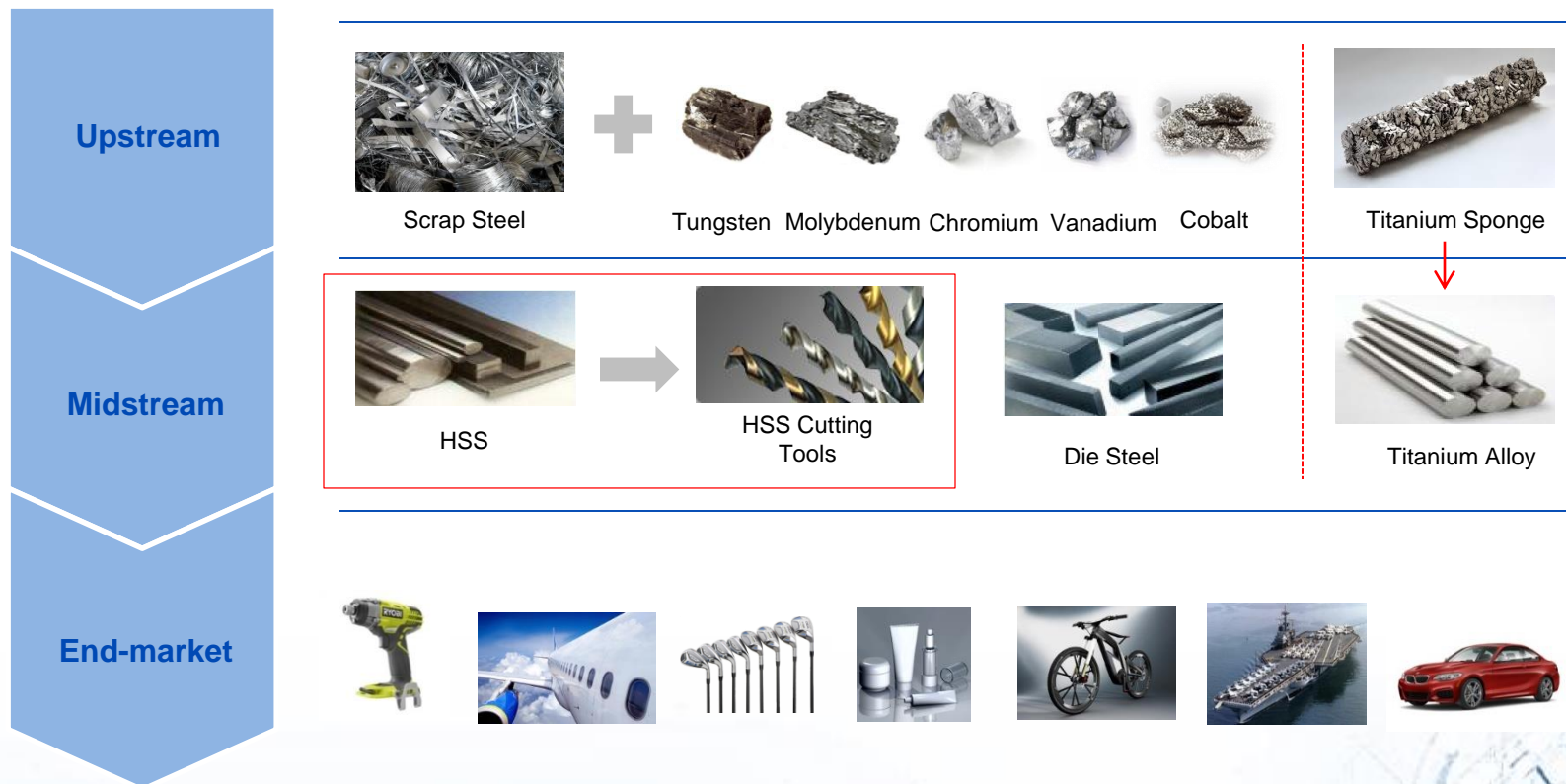
### Strategy & Investment Highlights





# Unique Business Model

Uniquely positioned in global Die Steel, Titanium alloy and Cutting tools industry





## Efficient Cost Model

Advanced waste material recycling production expertise and independent capabilities on process re-engineering

### Recycle Production Expertise

- Achieve ~5% cost advantage
- Stable raw material supply
- Enhance production and operation efficiency

### Capabilities on Process Re-engineering

- Break the traditional production mode to reduce cost and increase efficiency
- Accelerate materials flow





## Key Investment Highlights

Leading market position	<ul style="list-style-type: none"><li>✓ Leading global Die Steel, Titanium alloy and Cutting tools producer, well positioned to take significant market share with further expansion into Titanium Alloy production</li><li>✓ Domestic and international markets are further expanded, and online and offline marketing networks are fully deployed</li></ul>
Strong competitive advantages	<ul style="list-style-type: none"><li>✓ Large scale and vertically integration provide strong purchasing power and use of capacity productively</li><li>✓ Proven track record of industry expertise enable to develop advanced products and execute cost savings strategy</li><li>✓ Excellent customer service provide long-term and sustainable relationship with both international and domestic clients</li><li>✓ Combining independent R&amp;D with external technical cooperation to enter the field of new materials</li></ul>
Strong management capabilities	<ul style="list-style-type: none"><li>✓ Experienced and stable global management team with over 30+ years of industry experience</li><li>✓ Improving the company's internal control management system to form a modern management mechanism</li><li>✓ To motivate all parties' enthusiasm through the reform and innovation as well as the continuous Share Option Scheme</li><li>✓ Sales Management System was formally launched to lay the foundation for information and data management</li></ul>

# Transformation & Strategic Focus



Continued operational excellence to drive value for shareholders, customers and employees

- Leverage existing and new facilities to strengthen innovation and core product development
- Invest in advanced technology to explore higher margin opportunities to meet global customer needs
- Enhance margin per unit in every segment, continued cost and customer focus
- Maintain financial flexibility with strong balance sheet
- Build Eastern and Southern China sales platform through JV with Ningshing and Xinyuan, expand value chain to the downstream.
- Respond to national policies to fully develop the Southeast Asian markets and the “Belt and Road” markets





## SECTION 3

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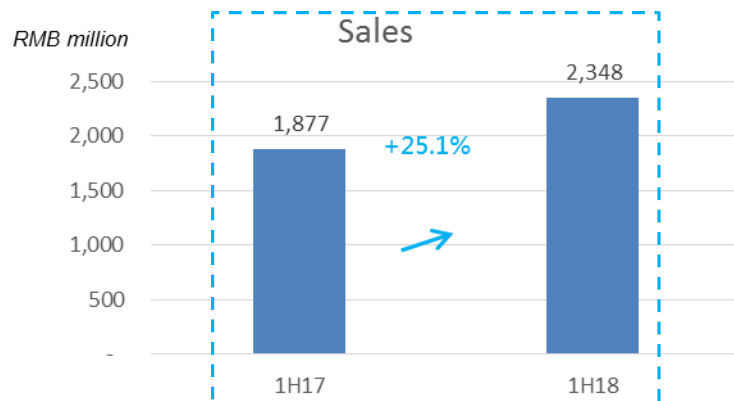
### Financial Overview



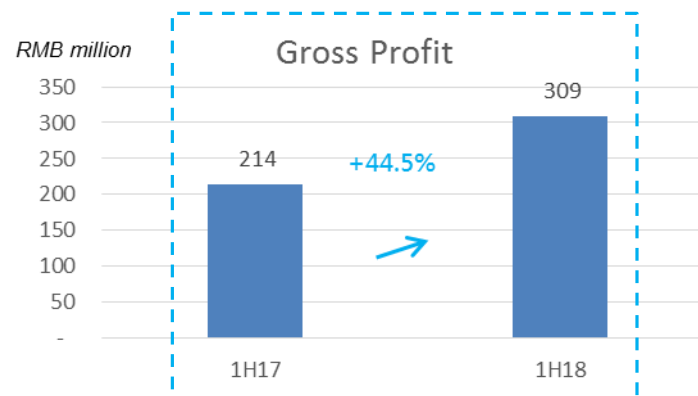


# Financial Snapshot

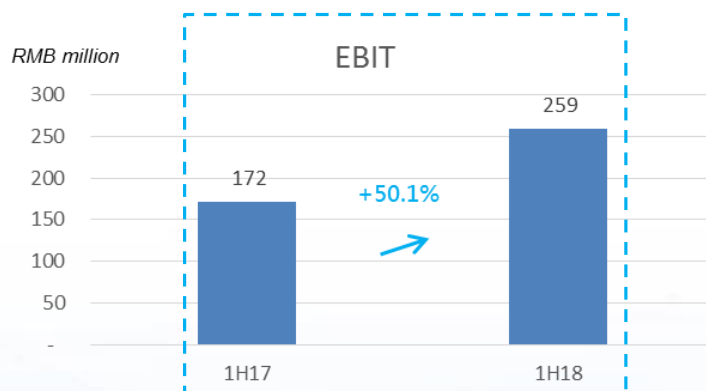
## Revenue increased steadily in 2018 Interim



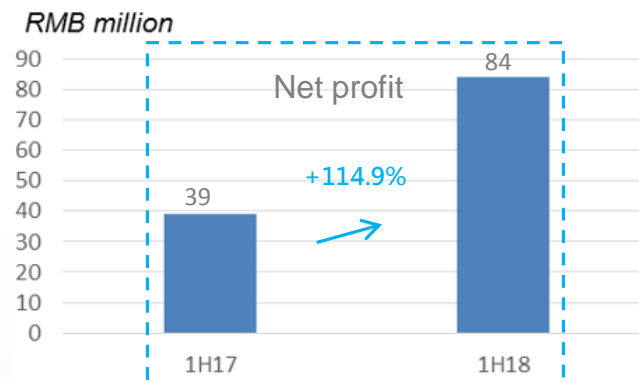
## Gross profits grew rapidly in 2018 Interim



## Adjusted EBIT\* increased significantly in 2018 Interim



## Net profit increased significantly in 2018 Interim



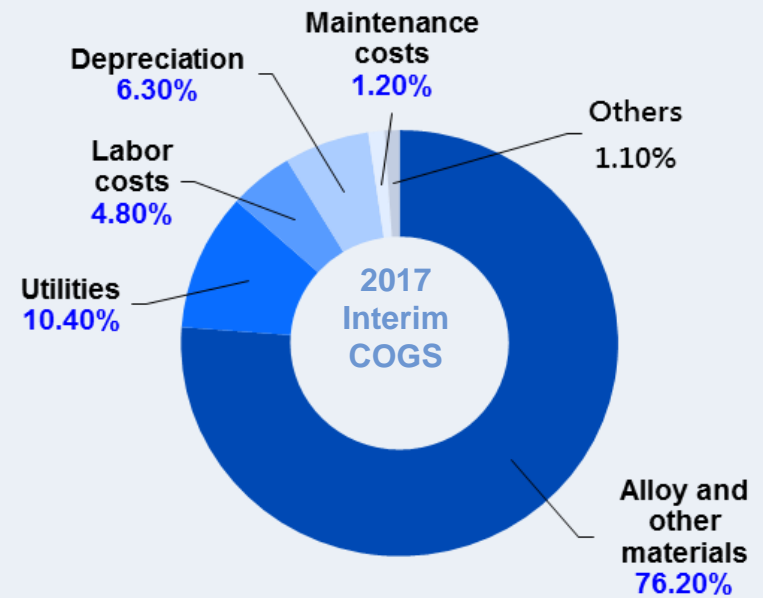
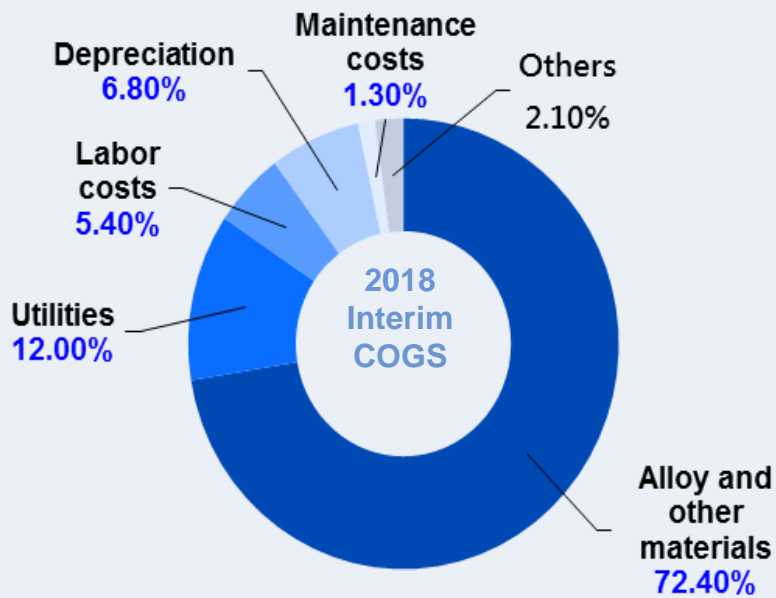
\*Note: To arrive at adjusted EBIT, the Group's earnings are further adjusted for items not specifically attributed to individual segments





## Cost Structure

Efficient cost structure benefits long-term growth





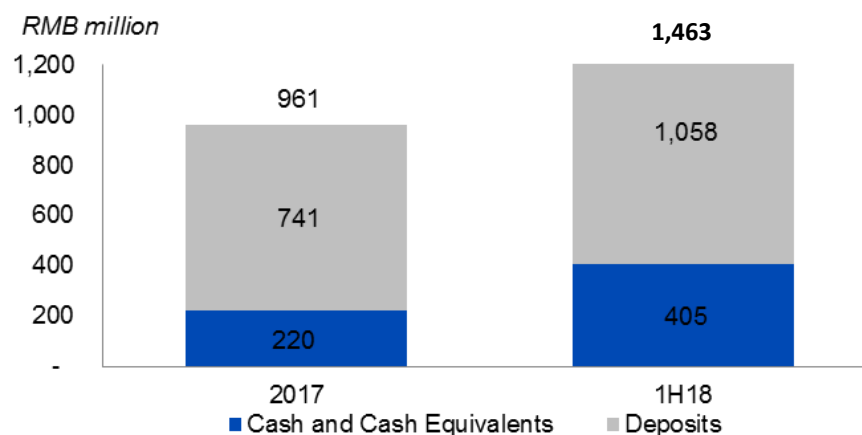
## Balance Sheet Summary

**Solid balance sheet & cash position to support existing business and growth opportunities**

<i>RMB million</i>	2017	1H18
Total Cash	961	1,463
Debt	2,993	3,199
Net Asset	4,303	4,639

Note: Total cash includes cash & cash equivalents, time deposits and pledged deposits  
 Note: Debt consists of ST and LT interest-bearing borrowings

### Cash Position



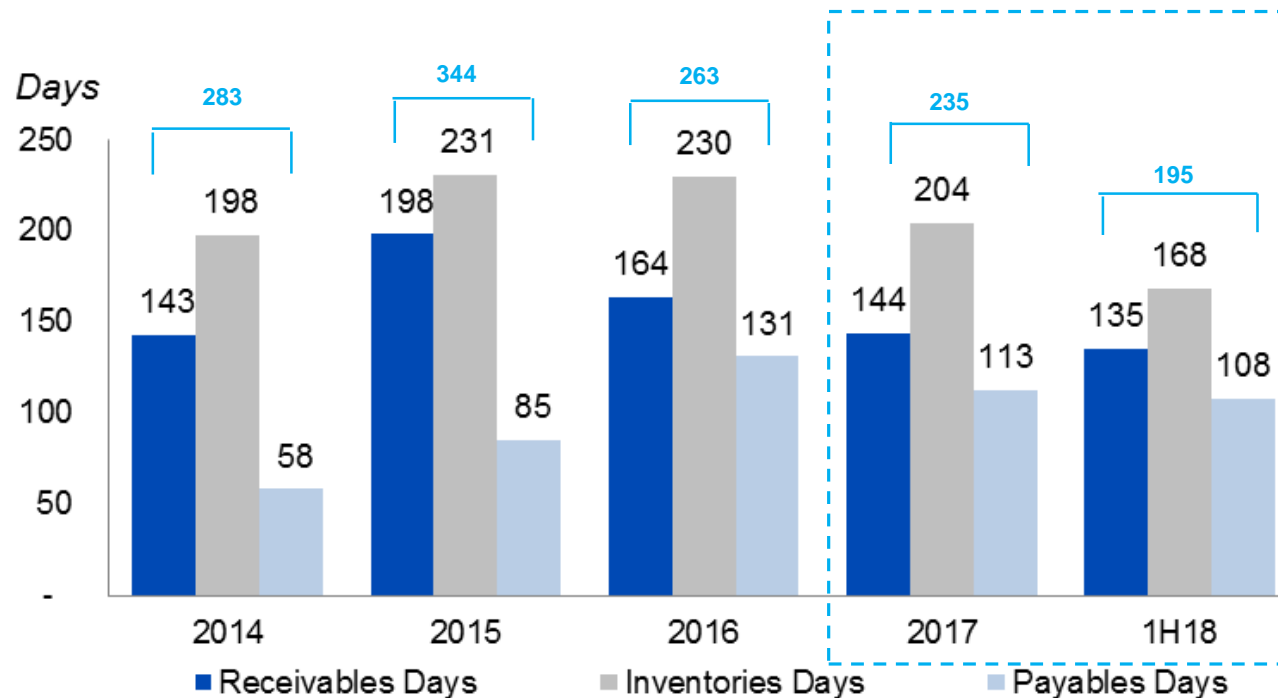
Note: Deposits include both time and pledged deposits



# Working Capital Overview

Cash conversion cycle continued to improve in 1H 2018

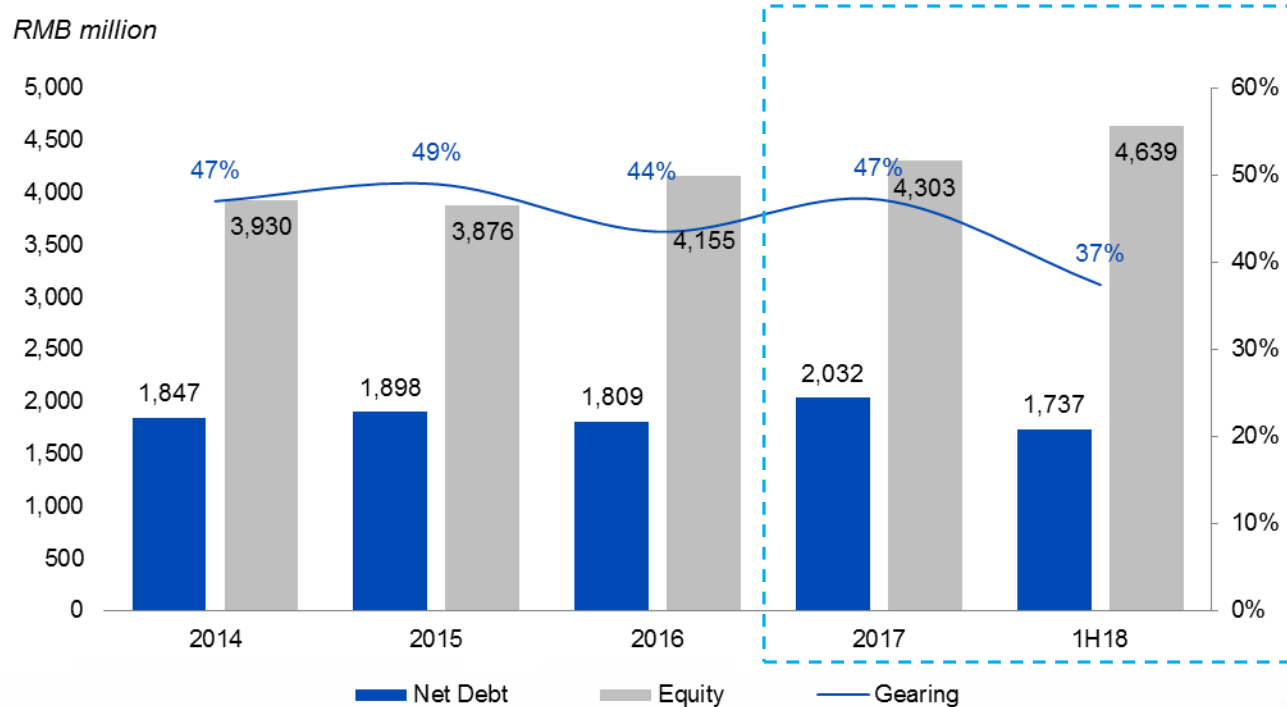
Cash Conversion Cycle



# Net Gearing Ratio



Net gearing ratio remained stable





## Major Capex Plan

High-quality capital projects delivering industry-leading returns across a broad range of product

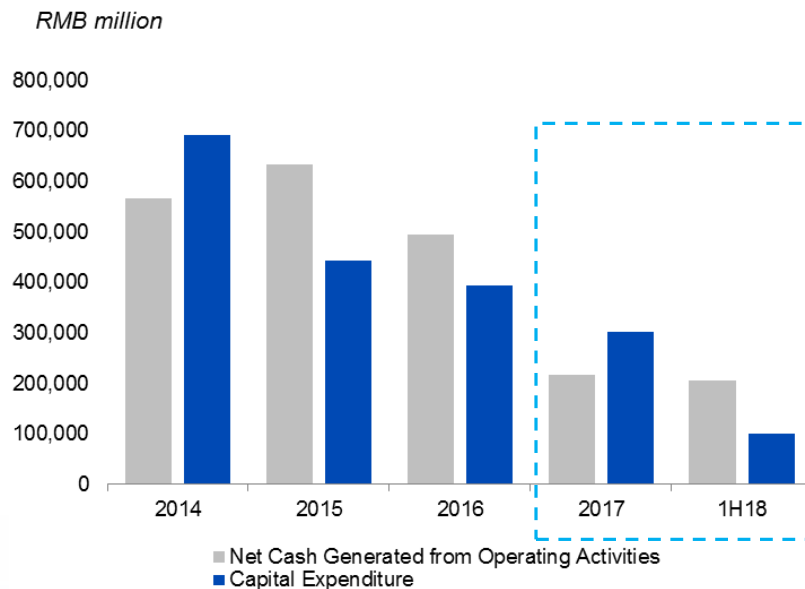
Project	Status/Milestones	Year
Production line construction and capacity expansion	✓ Trial production of hot rolling production line and acid and alkali cleaning workshop which support steel sheet project	2015 - 2017
	✓ Completion of capacity expansion project of cemented carbide cutting tools	2016 – 2017
	✓ the Group commenced the construction of the first domestic powder metallurgy production line in China to fill the gap in domestic production of powder metallurgy materials for DS and HSS	2018
	✓ The Group will start the construction of the second phase of the powder metallurgy project, it is expected to achieve a total annual output of 5,000 tons of powder metallurgy products ultimately.	in 2020.
Factory automation & upgrades	✓ Production line and machine upgrades of existing business to expand the intelligent production coverage of Cutting tools and further reduce labor intensity and improve efficiency.	2014 - 2017

# Capex Trend

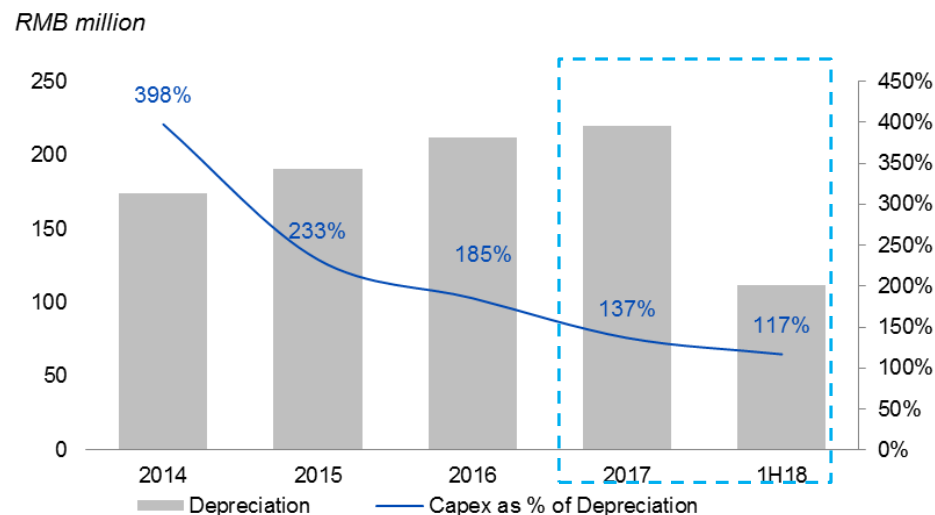


Discipline capex management consistent with operating cash flow

## Capital Expenditure



## Depreciation



## SECTION 4

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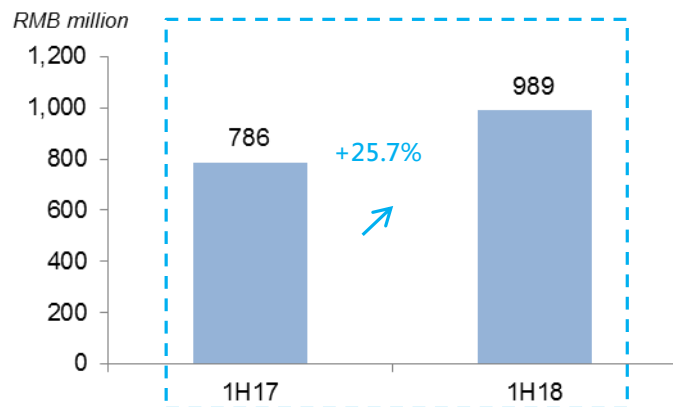
### Segment Reporting



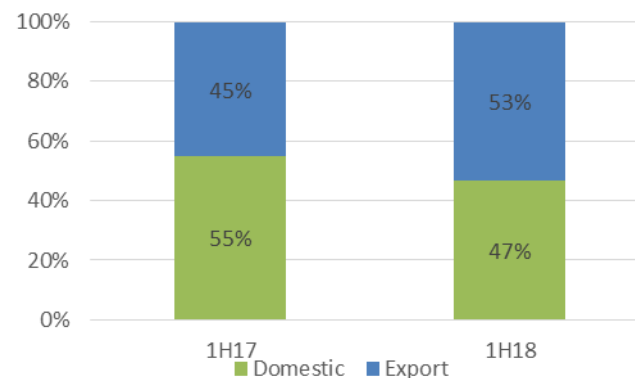
# Die Steel



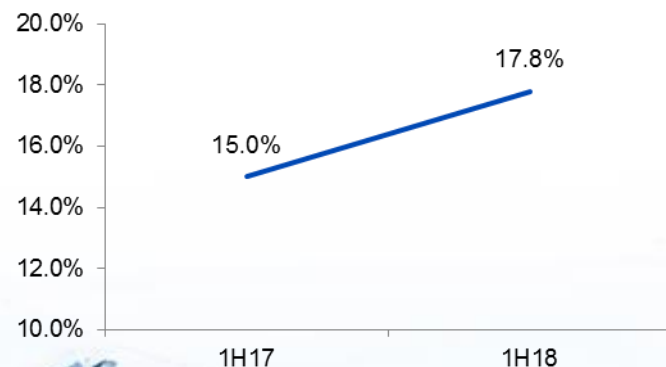
## Revenue



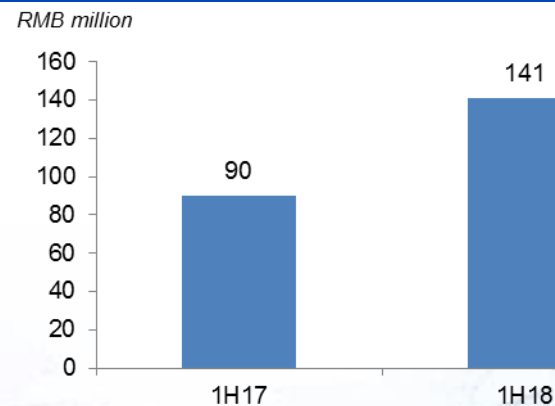
## Domestic vs. export



## Gross margin



## Adjusted EBIT



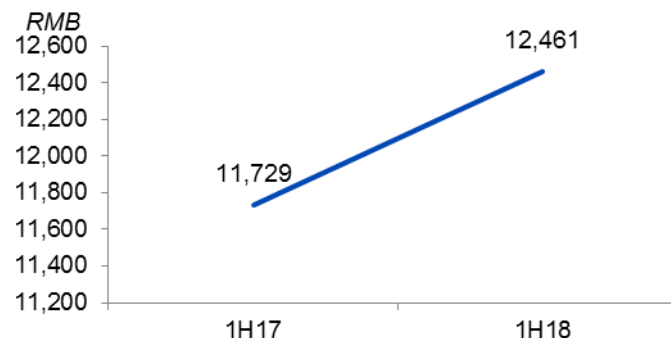


## Die Steel (con't)

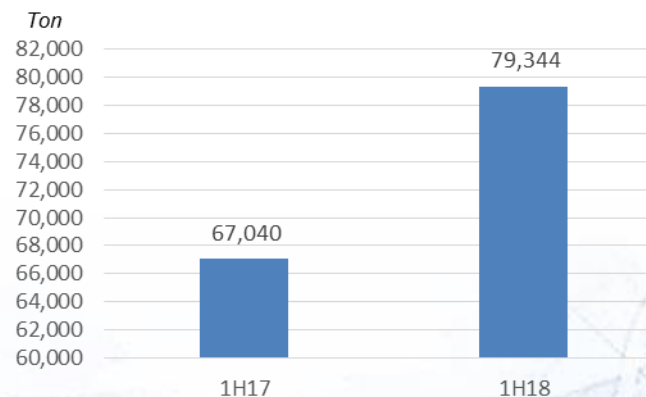


- **1H18 vs. 1H17:** Revenue up 25.7% to RMB 989 million mainly because of the recovery in demand from manufacturing industry and the upward pricing trend in special steel. ASP and sales volume of this sector increased by 6.2% and 18.4%, respectively.
- **Gross margin:** As the increase in average selling price caused by the upward pricing trend of rare metals, gross margin of this sector increased from 15% to 17.8%.
- **Adjusted EBIT:** Continued to witness a strong growth in adjusted EBIT, which increased by 57.3%, attributable to the increase in average selling price and better cost control of the Group.

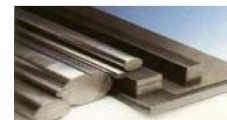
### ASP



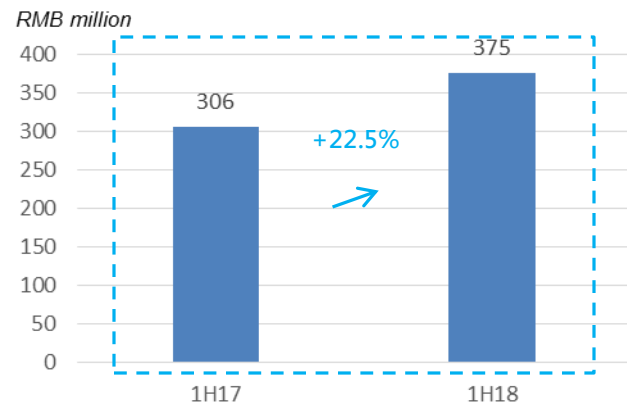
### Sales volume



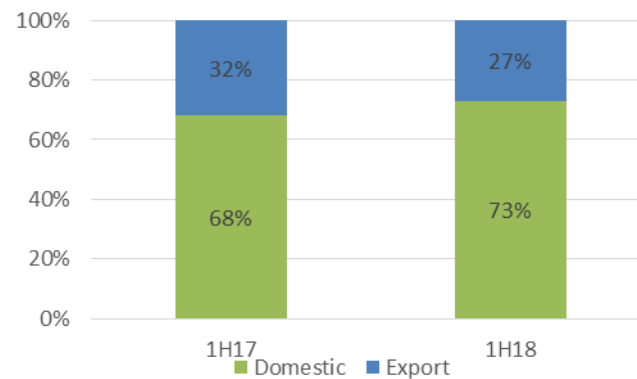
## High Speed Steel



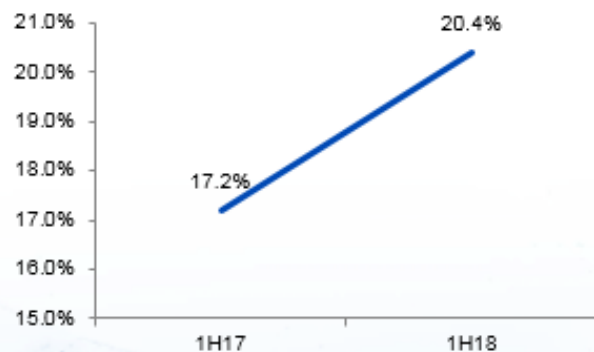
### Revenue



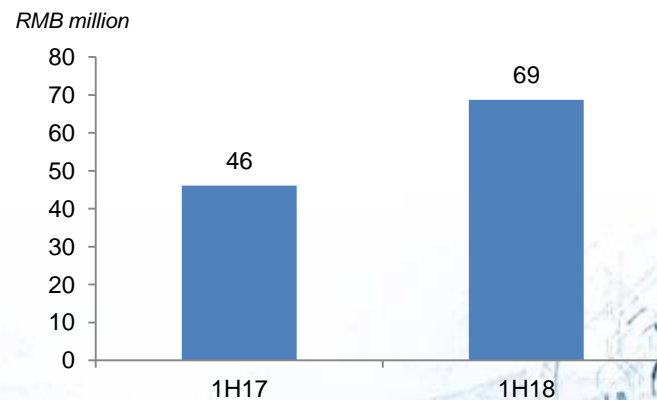
### Domestic vs. export



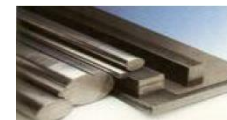
### Gross margin



### Adjusted EBIT

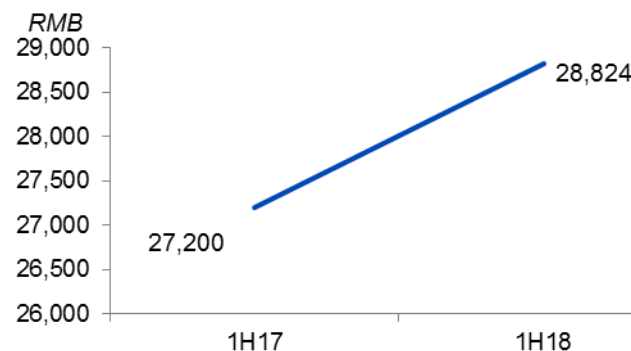


## High Speed Steel (con't)

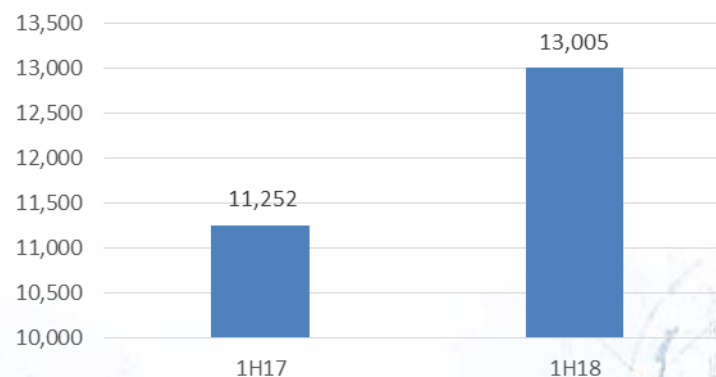


- **1H18 vs. 1H17** : Revenue increased by 22.5% to RMB375 million because of the recovery in demand and the upward pricing trend. ASP and sales volume of this sector increased by 6.0% and 15.6%, respectively.
- **Gross margin**: As the increase in average selling price caused by the upward pricing trend of rare metals, gross margin of this sector increased from 17.2% to 20.4%.
- **Adjusted EBIT**: In line with the upward trend of revenue and gross margin of the sector, adjusted EBIT experienced rapid growth of 49.0%.

### ASP



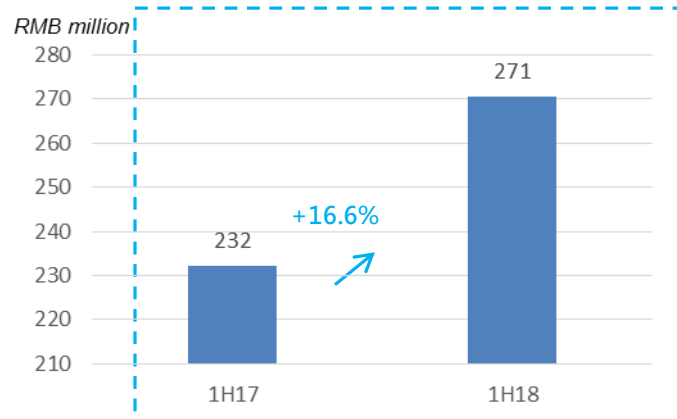
### Sales volume



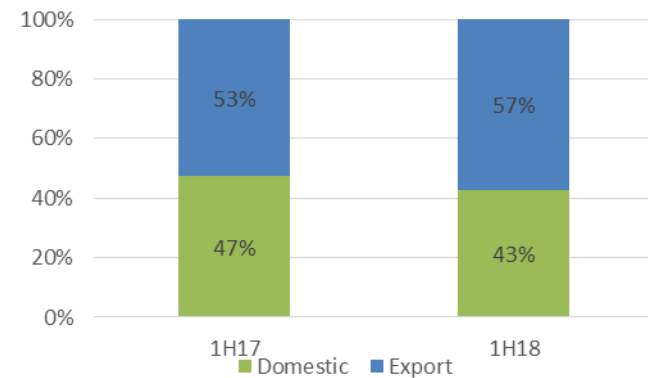
# Cutting Tools



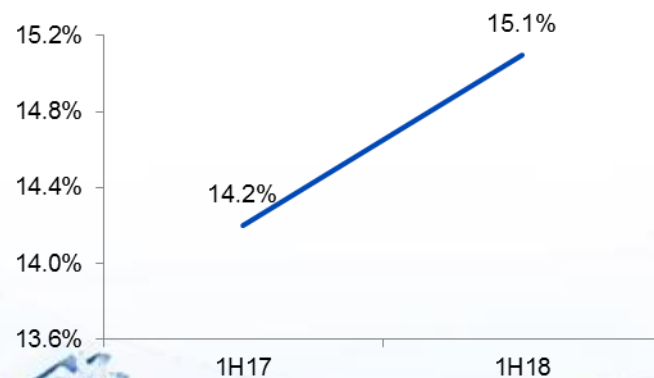
## Revenue



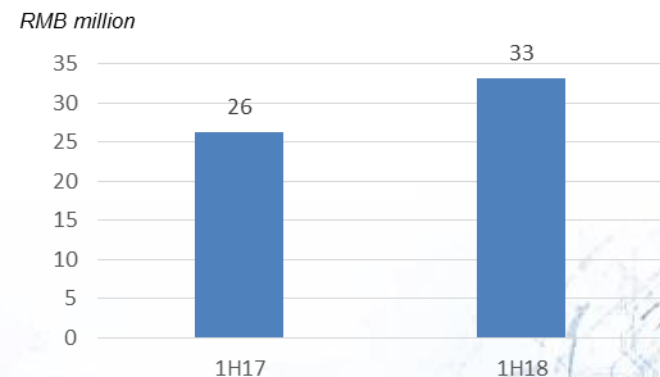
## Domestic vs. export



## Gross margin



## Adjusted EBIT

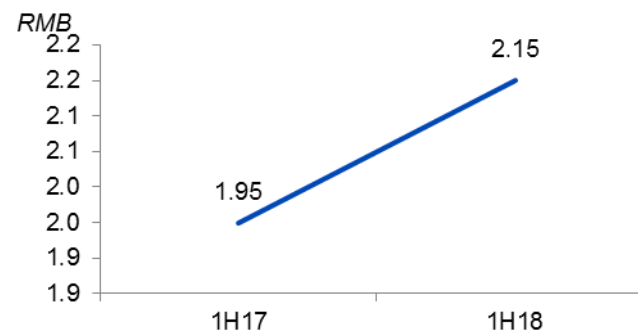


## Cutting Tools (con't)

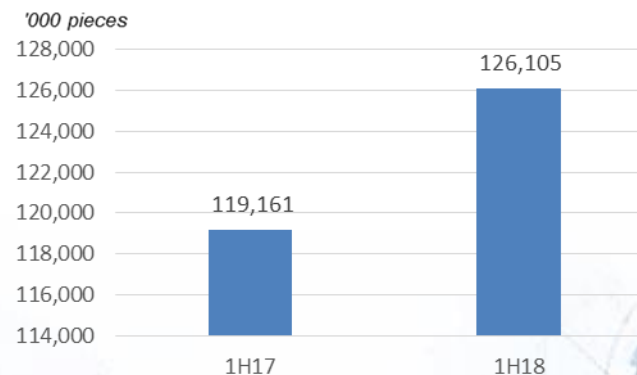


- **1H18 vs. 1H17** : Revenue increased by 16.6% to RMB271 million because of the recovery in demand and the upward pricing trend. ASP and sales volume of this sector increased by 10.1% and 5.8%, respectively.
- **Gross margin**: Benefiting from the increase of average selling price of HSS, the price of cutting tools increased accordingly, which result in an increase in gross margin of this sector, from 14.2% to 15.1%.
- **Adjusted EBIT**: As the increase of gross margin, adjusted EBIT of the sector increased by 26.1%.

### ASP



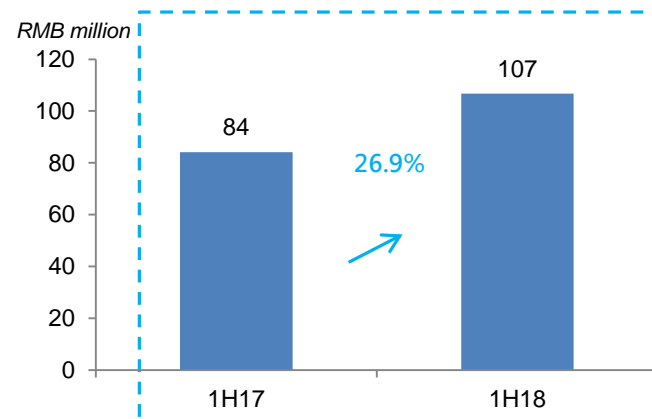
### Sales volume



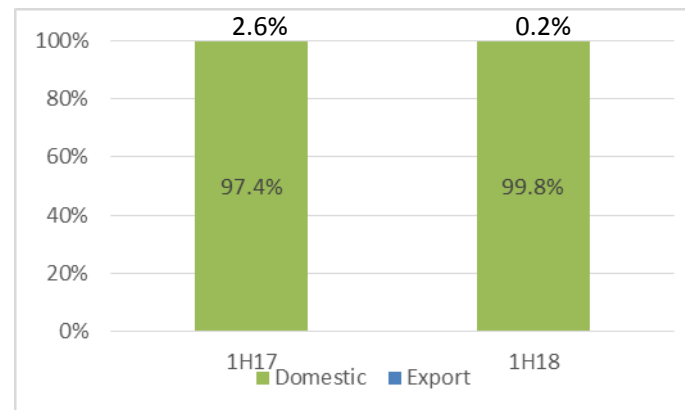
# Titanium Alloy



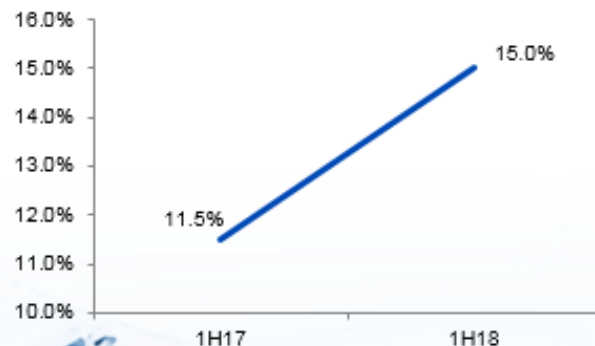
## Revenue



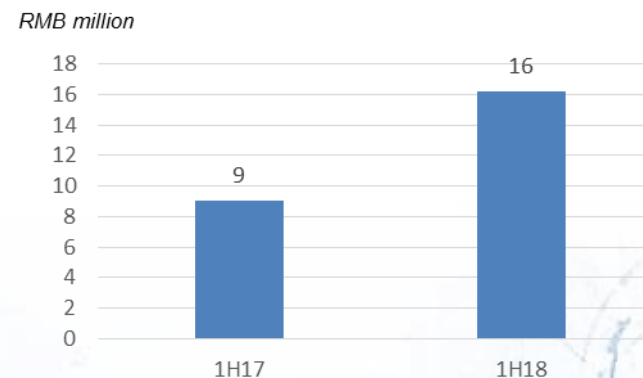
## Domestic vs. export



## Gross margin



## Adjusted EBIT

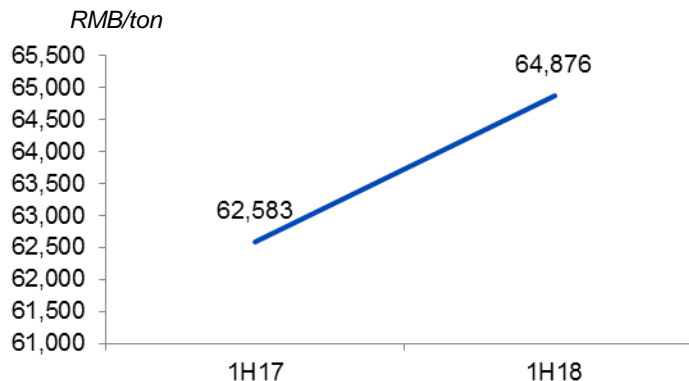


## Titanium Alloy (con't)

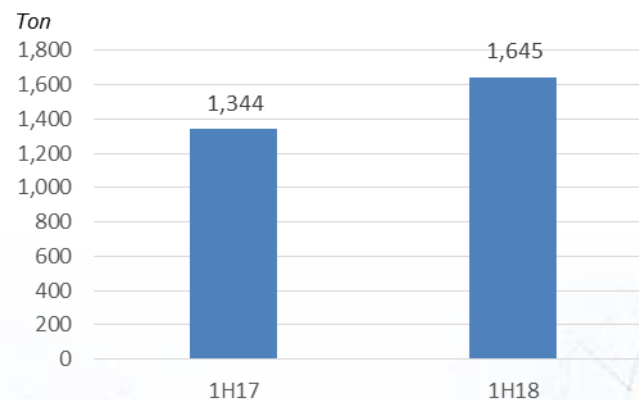


- 1H18 vs. 1H17:** Titanium alloy segment has been a growing segment among the Group's products. Revenue increased by 26.9% to RMB107 million. . ASP and sales volume of this sector increased by 3.7% and 22.4%, respectively.
- Gross margin:** The average selling price of titanium alloy remained stable in the period. the price of titanium alloy increased accordingly, which result in an increase in gross margin of this sector, from 11.5% to 15.0%
- Adjusted EBIT:** As the increase of gross margin, adjusted EBIT of the sector increased by 79.5%.

### ASP



### Sales volume



## SECTION 5

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### Outlook





## Recent Developments



- Fully utilize the advantage in pricing and distribution by enhancing innovation and research and development capacity
- Cooperate with Nanjing Tech University and Ningbo Sino-Ukrainian Vision New Materials Technology Co., Ltd. to develop new titanium alloy materials
- Formally launch the Die Steel powder metallurgy project to enter the field of strategic new materials
- The Group will focus on three directions of development, namely, powdered steel ingots, near-net shape forming, and additive manufacturing (including low-carbon molds and 3D printing). The total investment in the production line will be RMB500 million. which is expected to be completed and put into production with sales contribution after June 2019.
- The Group will start the construction of the second phase of the powder metallurgy project in 2020.
- On 29 January 2018, the Group entered into a subscription agreement with JM Digital Steel Inc., a company limited by shares quoted on The National Equities Exchange and Quotations System (stock code: 834429) ("JM Digital")



# APPENDIX

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# Corporate Snapshot

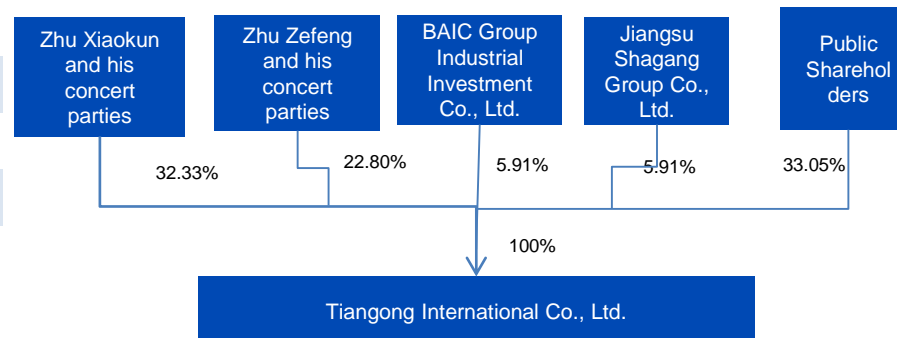


## Company profile

Stock Code	826.HK
Listing Date	July 26, 2007
Share Price (HK\$)	\$1.64
Market Cap (HK\$ M)	4,164

Note: Share price and market cap as of 14 August 2018

## Ownership Structure



Note: Ownership as of 14 August 2018

## Share price performance



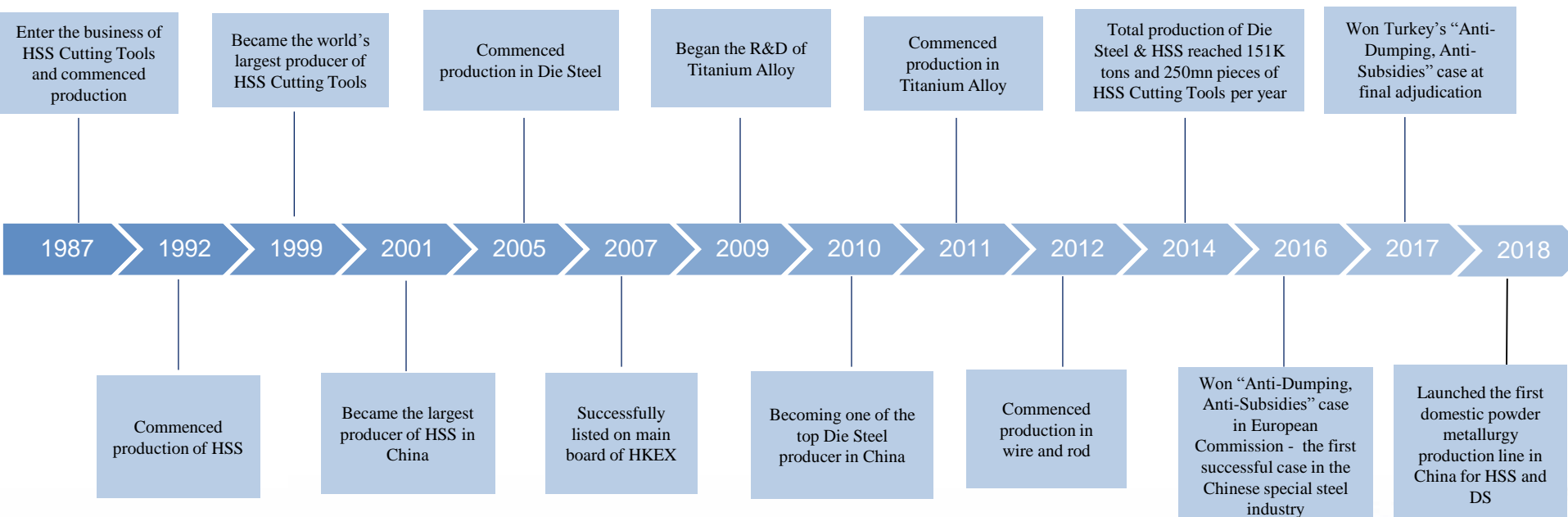
## Board of Director

<b>Mr. ZHU Xiaokun</b>	Chairman
<b>Mr. WU Suojun</b>	Executive Director & CEO
<b>Mr. YAN Ronghua</b>	Executive Director
<b>Mr. JIANG Guangqing</b>	Executive Director
<b>Mr. GAO Xiang</b>	Ind. Non-executive Director
<b>Mr. LEE Cheuk Yin</b>	Ind. Non-executive Director
<b>Mr. WANG Xuesong</b>	Ind. Non-executive Director

# Milestone



## Global leader in the new alloy materials & tools market



# Leadership



Industry veterans with average of 30+ years of new alloy materials & tools experience



**Mr. ZHU Xiaokun**

Chairman of the Board

- Responsible for the overall business development strategy of the Group
- Over 30 years of experience in new alloy materials & tools industry
- Named as Most Honored Business Leader of the 12<sup>th</sup> Five Year Plan in Jiangsu from 2013 to 2015
- Awarded the National Labor Medal Award in 2015
- Annual Influential Figure of the third Made in China 2025 Summit
- Deputy of 13<sup>th</sup> National People's Congress

**Mr. WU Suojun**  
Executive Director &  
CEO

- Over 25 years of experience in new alloy materials & tools industry
- Responsible for sales, production, operation management and purchase of HSS and Die Steel

**Mr. WANG Gang**  
CFO

- CFO of the Group
- Member of the Chinese Institute of Certified Public Accountants
- Former director and financial controller of TG Tech
- Former chief accountant of Jiangsu Tiangong Group Co., Ltd. and former audit manager of KPMG China

**Mr. ZHU Zefeng**  
CIO

- CIO of the Group
- Former operation manager at TopTech Tools
- Graduated with Advanced Diploma in Business Operation in Management from the Durham College
- Responsible for future investment strategy executions and opportunities recommendations

**Mr. LIAO Jun**  
CTO

- CTO of the Group
- Former deputy head of technical center at Baosteel
- Over 30 years of experience in special steel industry
- Responsible for technology advance and development

# Special Steel Production Process



Production cycle 45 – 90 days



**Smelting**



**Forging**



**Processing  
& Finishing**



**Finished  
Goods**

3-5 days

8-10 days

10-15 days

9-12 days

13-45 days

2-3 days

Product

**Electroslag  
Re-melting**



**Rolling**



**Inspection &  
Packaging**

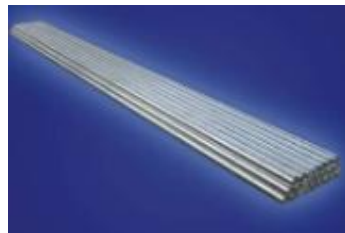




# Cutting Tools Production Process



Production cycle 45 – 75 days



**Cutting**



**Heat Treatment**



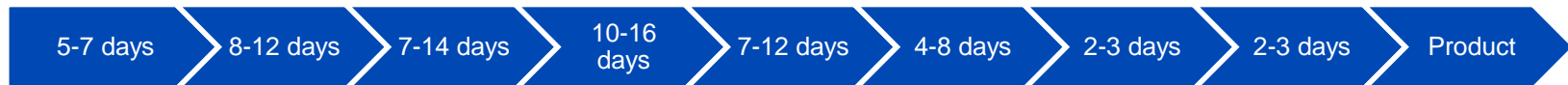
**Polishing**



**Testing**



**Finished Goods**



**Polished**



**Grinding & Sharpening**



**Surface Treatment**



**Packaging**





# Titanium Alloy Production Process

Production cycle 30 – 60 days





# Income Statement



<i>RMB'000</i>	<b>1H18</b>	<b>1H17</b>
<b>Revenue</b>	<b>2,347,657</b>	<b>1,877,005</b>
Cost of sales	(2,038,311)	(1,662,936)
<b>Gross profit</b>	<b>309,346</b>	<b>214,069</b>
Other income	16,260	6,308
Distribution expenses	(50,901)	(42,255)
Administrative expenses	(72,560)	(63,429)
Other operating expenses	(42,383)	(9,805)
<b>Profit from operations</b>	<b>159,762</b>	<b>104,888</b>
Finance income	3,647	2,664
Finance expenses	(67,178)	(59,102)
<b>Net finance costs</b>	<b>(63,531)</b>	<b>(56,438)</b>
Share of profits of associates	2,590	(1,628)
Share of profits of joint ventures	8,203	(720)
Profit before taxation	107,024	46,102
Income tax	(19,093)	(5,197)
<b>Profit for the year</b>	<b>87,931</b>	<b>40,905</b>
Attributable to:		
Equity shareholders of the Company	<b>84,441</b>	<b>39,290</b>
Non-controlling interests	3,490	1,615
<b>Profit for the period</b>	<b>87,931</b>	<b>40,905</b>
Basic and Diluted EPS (RMB)	0.036	0.018

# Balance Sheet



<i>RMB'000</i>	<b>30 Jun 2018</b>	<b>31 Dec 2017</b>
PPE	3,536,737	3,520,344
<b>Non-current assets</b>	<b>3,839,138</b>	<b>3,801,667</b>
Inventories	1,886,095	1,896,864
Trade & other receivables	2,230,829	2,044,171
Pledged deposits	285,380	241,380
Time deposits	772,150	500,000
Cash & cash equivalents	405,140	219,798
<b>Current assets</b>	<b>5,581,744</b>	<b>4,902,213</b>
Interest-bearing borrowings – Current	2,551,300	2,170,279
Trade & other payables	1,454,297	1,302,982
<b>Current liabilities</b>	<b>4,022,200</b>	<b>3,482,924</b>
Interest-bearing borrowings – Non-current	648,196	823,013
<b>Non-current liabilities</b>	<b>759,241</b>	<b>917,991</b>
<b>Total equity</b>	<b>4,639,441</b>	<b>4,302,965</b>



For more information visit <http://www.tggj.cn/en/>  
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Leveraging on our dominating position in the market and our advantage in costing and product range, we will strive to maintain growth and maximize returns to the shareholders of the Company.

